STANDARD & POOR'S RATINGS SERVICES

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Summary:

Winchester, Virginia; General Obligation

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Credit Profile		
US$26.0 mil go pub imp bnds ser 2013 due 09/01/2033		
Long Term Rating	AAA/Stable	New
Winchester GO		
Long Term Rating	AAA/Stable	Upgraded
Winchester go pub imp & rfdg bnds dtd 10/21/2004 due 01/15/2005-2025		
Unenhanced Rating	AAA(SPUR)/Stable	Upgraded
Winchester GO		
Unenhanced Rating	AAA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to Winchester, Va.'s general obligation (GO) public improvement bonds series 2013 and raised the city's outstanding GO rating to 'AAA' from 'AA+' based on our recently released local GO criteria. The outlook is stable.

A pledge of the city's full-faith-and-credit, resources, and an agreement to levy ad valorem property taxes without limitation as to rate or amount secure these bonds.

The rating reflects our assessment of the city's:

- Strong economy, which benefits from participation in the broad and diverse economy of the Shenandoah Valley;
- Very strong budgetary flexibility with 2012 audited reserves at 30% of general fund expenditures;
- Strong budgetary performance, with a relatively stable revenue stream;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Very Strong management with strong financial policies, which have allowed for the maintenance of very strong reserve levels despite recent drawdowns, net of transfers; and
- Weak debt and contingent liabilities position, driven mostly by the city's high net direct debt as a percentage of revenues.

Strong economy

We consider Winchester's economy to be strong with access to the broad and diverse economy of the northern Shenandoah Valley in western Virginia. Traditionally, county unemployment has tracked below the Commonwealth and nation and has been well below 10%. The city has per capita incomes we consider strong, reflective of the employment opportunities within the city and surrounding areas. The city has projected per capita effective buying income of 99% of the U.S. Per capita market value for the city was $115,077 in for fiscal 2013. Assessed value (AV) decreased by an average rate of 3.7% annual between 2008 and 2012, reflecting a decline in city home prices following a citywide revaluation, which occur every two years. However, AV has begun to stabilize, increasing by 1.35% in 2013 to reach $3.08 billion.

Very strong budgetary flexibility

In our opinion the city's budgetary flexibility remains very strong, with reserves above 28% of expenditures for the past three fiscal years and no plans to significantly spend them down. The city anticipates reserves for 2013 will be level with 2012 as management projects a modest surplus of between $1.2 million and $1.3 million for fiscal 2013. For audited fiscal 2012, reserves were $20.5 million or 30% of expenditures. Property taxes account for approximately 50% of the city's general fund revenues.

Strong budgetary performance

The city's budgetary performance has been strong overall in our view with a surplus of 1% for the general fund in fiscal 2012 and 0.4% for total governmental funds with modest exposure to certain cyclical revenues--especially during recessionary periods. Roughly 50% of the city's revenues are from property taxes followed by other local taxes, which include business license and hotel and meals taxes, at 24% and sales taxes at 12%. Certain local taxes declined modestly during the recent recession, but have rebounded and are trending slightly above budget. Although still unaudited, management is projecting fiscal 2013 to close with another modest surplus of between $1.2 million and $1.3 million with reserves remaining in line with the prior year. Given, the relative stability in the city's revenue stream and continued sound historical budget-to-actual performance, we do not anticipate a change in our assessment of the city's general fund performance. Furthermore, capital needs have moderated as the city has made significant investments in street improvements over the past five years. Future capital needs will continue as the city continues to implement its recently adopted Strategic Plan.

Very strong liquidity

Supporting the city's finances is liquidity we consider very strong, with total government available cash at 23.8% of total governmental fund expenditures and above 200% of debt service. We believe the city has strong access to external liquidity. The city has issued bonds frequently during the past 15 years, including general obligation bonds, and revenue bonds.

Very Strong management conditions

We view the city's management conditions as strong, with strong financial practices combined with a consistent ability to maintain balanced budgets. The city maintains several formal policies which include: a formal reserve policy that requires the unassigned general fund balance to not fall below 20% of expenditures, a formal 20-year financial forecast of general fund revenues and expenditures, monthly budget monitoring and quarterly reporting to the city council, several debt affordability benchmarks tied to the city's capital improvement program (CIP)--these include debt affordability guidelines that limit the debt-to-AV ratio to 4% and a 15% GO and capital lease debt service carrying charge cap; and a five-year CIP with identified projects and funding sources.

Weak debt and contingent liability profile

In our opinion, the city's debt and contingent liability profile is weak with total governmental fund debt service at 11% of total governmental fund expenditures, and with net direct debt at 131% of total governmental fund revenue, and modestly rising to 138% following an additional issuance of $5.7 million of projected debt in the coming fiscal year. The city has a five-year capital program with this issue being the largest, followed by two smaller issues over the next two years. We expect debt issuance within the next two years will maintain the net direct debt, including the new issuance, at relatively similar levels (of total governmental fund revenue). The city currently has revenue debt outstanding issued through the Virginia Resources Authority for utility capital projects, which has been self-supporting debt.

The city participates in the Virginia Retirement System (VRS) retirement plan to provide pension benefits for employees. It has contributed 100% of the annual required contributions (ARC) in each of the past three years. The combined ARC pension costs and other postemployment benefit (OPEB) pay-as you-go costs for fiscal 2012 were less than 3% of expenditures, and they city does not anticipate these costs to increase substantially in the near term. The city's OPEB liability is 76% funded. Based on recent Commonwealth changes to pension payments (effective July 1, 2012), employees now pay 5% of their VRS benefits and the city has increased each applicable employee's salary by 5%.

Very strong institutional framework

We consider the Institutional Framework score for Virginia cities as very strong. See Institutional Framework score for Virginia.

Outlook

The stable outlook reflects our view of the city's continued consistent strong financial performance and underlying economy supported by very strong management practices. We do not anticipate changing the rating in our two-year outlook horizon due to our expectation that the city will maintain current reserve levels while managing future economic development given its role as the commercial and retail hub for the western Virginia area.

Related Criteria And Research

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Institutional Framework Overview: Virginia Local Governments